

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FRB-03 AID-05 CIAE-00 COME-00 EB-08
INR-10 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
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FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY
SECSTATE WASHDC 9127

C O N F I D E N T I A L PARIS 10133

PASS FEDERAL RESERVE

EO 11652: GDS
TAGS: EFIN FR
SUBJECT: GOF FOREX POLICY CHANGES

1. SUMMARY: THE OPERATING ASSUMPTION OF PARIS
FOREX MARKET DEALERS, WHICH THEY SHARED WITH THEIR
CUSTOMERS, WAS THAT THE FRANC WOULD STRENGTHEN, MOVING
QUICKLY TOWARD 4.50 TO THE DOLLAR IF THE MAJORITY
PARTIES WON THE ELECTION. IN FACT, THE FRANC DID MOVE
THIS WAY, REACHING 4.55 TO THE DOLLAR THE DAY AFTER
THE ELECTION; BUT SINCE THEN IT HAS MOVED THE OTHER WAY,
AND THERE ARE A NUMBER OF SIGNS THAT THIS IS THE POLICY
INTENTION OF THE GOF, PROBABLY TO ENCOURAGE ANY
SPONTANEOUS ECONOMIC UPSWING THAT MIGHT OCCUR AS THE
RESULT OF THE ELECTION OUTCOME. END SUMMARY

2. INSEE OFFICIALS HAVE INFORMED FINATT THAT THEIR
1978 PROJECTIONS ASSUME AN EXCHANGE RATE THAT DEPRECIATES
SLIGHTLY AGAINST THE DOLLAR, ASSUMING THAT THE DOLLAR
STRENGTHENS AGAINST THE D-MARK AND THAT THE FRANC WOULD
BASICALLY TRACK THE DOLLAR IF IT WEAKENED AGAINST THE
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D-MARK. AN MOF OFFICIAL IN CHARGE OF FOREX OPERATIONS
EXPRESSED THE VIEW THAT "IN PRESENT CIRCUMSTANCES AN
EXCHANGE RATE BELOW 4.60 FRANCS TO THE DOLLAR WOULD BE
DIFFICULT TO JUSTIFY IN VIEW OF REAL CONDITIONS IN THE
FRENCH ECONOMY".

3. THE BOF HAS LOWERED THE CALL MONEY MARKET RATE

FROM 10.5 TO 9 AND 1/4 THIS WEEK, AND THE MONEY MARKET NOW ANTICIPATES 9 OR 8 AND 1/2 WITHIN DAYS. THE MOF HAS SWITCHED A MAJOR "TREASURY CORRESPONDENT" BORROWER, THE CAISSE DE TELECOMMUNICATIONS, FROM FOREIGN TO DOMESTIC BORROWING AND MARKET SOURCES REPORT THAT THE OTHER LARGE "TREASURY CORRESPONDENT" BORROWERS EXCEPT FOR EDF/GDF, WILL FOLLOW SUIT, THEREBY SUBSTANTIALLY SLOWING DOWN THIS FORM OF LONG-TERM CAPITAL INFLOW.

4. THE BOF NATURALLY CEASED FOREX MARKET INTERVENTION FOLLOWING THE ELECTION, BUT IT HAS GONE FURTHER BY DISPLAYING AN OPEN INDIFFERENCE TO THE WEAKENING TREND OF THE FRANC DURING THE PAST THREE DAYS.

5. THE DOMESTIC ECONOMIC POLICY IMPLICATIONS OF THIS FOREX POLICY CHANGE ARE CLEAR: THE GOF IS POSITIONING ITSELF BY THE USE OF FOREX POLICY TO ENCOURAGE ANY SPONTANEOUS ECONOMIC UPSWING THAT MIGHT DEVELOP FOLLOWING THE ELECTIONS. AS LONG AS THIS IS LIMITED TO FOREX POLICY AND DOES NOT BROADEN TO INCLUDE CHANGES IN CREDIT POLICY, IT IMPLIES THAT THE GOF WANTS TO SEE WHAT THE ECONOMY WILL BE ABLE TO DO ON ITS OWN STEAM BEFORE DECIDING ITS ECONOMIC POLICY FOR THE POST ELECTORAL PERIOD. IT WILL BE ABOUT ONE MONTH BEFORE WE WILL HAVE PRELIMINARY INDICATIONS OF WHETHER OR NOT A SPONTANEOUS

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UPSWING IS UNDERWAY. IN ANY CASE THIS POSSIBILITY IS A VERY IMPORTANT ELEMENT IN THE FRENCH ECONOMY THIS YEAR AND A CRUCIAL ELEMENT IN THE DEVELOPMENT OF GOF ECONOMIC POLICY WHICH MUST BALANCE ECONOMIC EXPANSION WITHIN THE CONSTRAINTS OF THE BALANCE OF PAYMENTS AND UNDERLYING INFLATIONARY PRESSURE.

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